

Letter of Transmittal
November 15, 2005

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted herewith is the 2006 Annual Budget for the City of Franklin as adopted by the Common Council on November 1, 2005.

Introduction

The budget process begins with the preparation of a budget forecast. The forecast calculates 2006 costs based on a set of cost assumptions applied to the 2005 approved work program. The forecast was completed June 22, 2005. The departments were requested to provide their input on personnel needs, capital outlay needs, equipment replacement needs, street improvement needs, capital improvement needs and related debt service needs for 2006 and following years by the end of June. That information plus the forecast was provided to the Mayor. The Mayor and staff reviewed the forecast, met with departments requesting new personnel and determined what additional personnel, capital outlays, equipment replacement, street improvement, capital improvement and related debt service would be included in the 2006 Department/Requested Budget. That information was communicated to the departments. The departments then prepared their Department/Requested budgets and submitted them to the Director of Finance & Treasurer for compilation. The Mayor consulted with the Director of Administration and Director of Finance & Treasurer, met with all Department Heads, gave Department Heads budget reduction targets and then made adjustments due to the State imposed tax levy freeze in putting together the 2006 Mayor's Requested budget.

The budget document consists of three sections. Summary information providing an overview of the City budgets including assessed valuation, tax levy and tax rate information. Detail departmental budgets for the City of Franklin General Fund. Fund budgets for the Library, Sewer, Water Utility, Capital Projects Funds, Debt Service Fund and debt repayment information for the Community Development Authority.

Budget Summary

A new Mayor, State imposed tax levy limits and continued growth in the community provided real challenges in the preparation of the 2006 Adopted Budget. The Department/Requested budgets, that if approved, would have increased spending by 6.9 percent allowing them to serve the community and carry out their missions as they saw them. The community has experienced a population increase of 7.8% from the year 2000 to 2004 and it's valuation increased by 43.3% in that same period. Even with significant growth there were not available resources to be able to grant the increases requested by the departments.

The Adopted Budget containing the Mayor's requested budget included the following:

- Growth In tax levy revenue was limited to about 75% of the amount available under the Governor's tax freeze
- The City portion of property tax rate was reduced by 12 cents or 1.6%
- Met the State limits on expenditure growth
- Provided increased funding toward the Franklin Public Library
- No layoffs of existing personnel
- Reduced the tax levy support designated for Capital funds
- Tipping revenue redirected to the General Fund
- Combination of eight departments into four
- Increases the communication with residents thru two additional newsletters
- Increased the Fire Department's overtime budget until new positions can be granted
- Maintained Police Department authorized and funded positions at the 2005 budgeted level
- Substituted outside contracting for two vacant Building Inspection positions
- Added City budget support for underwriting the 2006 Civic Celebrations
- GASB 45 – Retiree Health Reporting change not adopted for 2006 budget

Assessed Valuation

Property is assessed based on its value on January 1st. Properties are reassessed every three years. January 1, 2003 was the last reassessment of property values. The assessed value on January 1, 2005, exclusive of the TID value increased from \$2,436,464,990 on January 1, 2004 to \$2,574,512,790 or a 5.66% increase. The 2005 assessed values are approximately 88.7% of fair market value. The assessed value of all property from new development increased in during the 2004 year by \$138,047,800.

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Tax Levy and Tax Rate

The City tax rate is the result of the tax levy required to finance the activity in all funds divided by assessed value of the City. The prior year City tax rate multiplied by the new construction value provides the amount of growth tax levy that is \$957,498. The tax levy required to finance the Adopted 2006 Annual Budget (all funds) has increased by only \$666,700 from \$16,899,300 to \$17,566,000 or 3.95% increase.

The levy limit for the City of Franklin calculated by the Department of Revenue (DOR) was 4.948% or \$17,735,477.

The Adopted Budget results in a City tax rate of \$6.82 per \$1,000 of assessed value compared to last year's City tax rate of \$6.94 per \$1,000. The percentage City tax rate decrease is 1.63%. The entire increase in new tax levy revenue is attributable to growth in City of Franklin properties.

The Breakdown by Fund reflects the tax levy requests by fund.

City of Franklin
Tax Levy Information

City Tax Rate Components	2005 Budget Tax Levy	2004 Budget Tax Levy	Tax Levy % Change	2005 Budget Tax Rate	2004 Budget Tax Rate	Tax Rate % Change to Total
Capital Outlay	386,000	333,000	15.92%	0.1499313	0.1366734	9.70%
Equipment Replacement	255,000	250,000	2.00%	0.0990479	0.1026077	-3.47%
Street Improvement	762,000	730,000	4.38%	0.2959783	0.2996144	-1.21%
Debt Service	<u>2,210,000</u>	<u>2,310,000</u>	<u>-4.33%</u>	<u>0.8584148</u>	<u>0.9480949</u>	<u>-9.46%</u>
Subtotal	3,613,000	3,623,000	-0.28%	1.4033723	1.4869904	-5.62%
Library Program	1,082,000	976,000	10.86%	0.4202737	0.4005804	4.92%
General Fund Program	<u>12,871,000</u>	<u>12,300,300</u>	<u>4.64%</u>	<u>4.9993925</u>	<u>5.0484206</u>	<u>-0.97%</u>
Total	17,566,000	16,899,300	3.95%	6.8230385	6.9359913	-1.63%
Prior year levy	<u>(16,899,300)</u>	<u>(15,813,611)</u>				
Increase in tax levy	666,700	1,085,689				

General Fund

Tax levy revenue for 2006 was budgeted at \$12,871,000 a 4.6% increase from the 2005 budget. The General Fund tax levy revenue for 2004 was \$11,301,586. The reasons for the growth of the tax levy are salary increases and fringe benefit increases, especially health care increase.

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The projection for non-tax levy revenue for 2006 is \$7,825,000, a 4.1% increase from the 2005 budget. The non-tax levy revenue for 2004 received was \$7,803,223 a 3.7% increase compared the 2005 budget. The major reason for the increase in non-tax levy revenue is redirection of the tipping revenue from the Debt Service Fund to the General Fund. This change was made because in an earlier analysis this revenue was assumed to end in mid 2007 when the siting revenue is scheduled to end. However the tipping revenue will continue until the landfill is full. The result is that this revenue was not included in the Debt Service projection and is available for General Fund use.

The 2006 adopted expenditures of \$21,646,000 are the requests of the departments then adjusted by the Mayor. The budget for 2005 of \$20,759,000 is a 5.3% increase over the 2004 budget. The current estimate to be expended in 2005 is \$20,259,000, a 2.5% decrease. The decrease from budget in this years estimate is primarily caused by vacancies in positions, less some increased overtime and a contingency budget that will in all likelihood not be expended. The budget planned for unspent funds by not taxing for all of the planned spending needs. The actual expenditures for 2004 were \$18,962,238 and under expended that budget by \$753,062. Some of the under expenditures were the result of positions that were budgeted but frozen by the Council and by contingency budgeted but not used during the year.

The budgeting overtime philosophy was maintained at an estimate of an average years exposure with the understanding that the departments will be able to request additional appropriations from fund balance in a year in which there are above average departmental needs for overtime costs. A similar philosophy was continued for salt purchases, fuel and claims against the City.

When the 2006 preliminary requested operating budgets were compiled they were \$531,000 over the expenditure restraint limit. Had budgeted spending not been reduced Expenditure restraint aid of \$487,000 would have been lost. Changes were made by the Mayor that reduced budgeted spending by \$545,000 resulting in continued qualification for the expenditure restraint program.

To maintain that qualification in the 2007 budget year is a major concern. In this year's forecast \$325,000 was required for the cost of salary increases and \$85,000 for the cost of benefit increases to existing staff other than health care and \$335,000 for the increase in the group health and dental coverage. The total of these components of \$873,000 exceeded the revenue that was levied from the growth in the community of \$666,700 by \$206,300. This does not consider non-payroll increases, needs related to increased staffing due to growth of the community and other special needs. For 2007 the growth in assessed value will probably be smaller, the wage and benefit increases because of existing contracts will be similar and tax levy limits from the State will still be in effect. The City may have to reduce some services to comply with State levy limits and to be able to continue to participate in the expenditure restraint program.

Library Fund

The Library requested funding of \$1,125,736 in expenditures an increase of \$109,069 or 10.7% in support of Library activities. The increase includes .82 FTE in new positions. That level of spending would have required a tax levy increase of \$147,000. Working with the Mayor the request for tax levy increase was reduced to \$1,082,000 or an increase of \$106,000.

Sanitary Sewer Fund

The Sewer Fund receives its revenue from user fees and interest income. Its expenditures are to MMSD, salaries, benefits, capital assets and other costs of providing the sanitary sewer activities. The Sewer Fund is continuing its sewer rehabilitation program resulting in a budgeted reduction in fund balance. The Fund balance in this fund is being reduced over a period of years by plan.

Water Utility

The Water Utility receives its revenue from user fees and interest income. Its expenditures are to its water supplier, salaries, benefits, capital assets and other costs of providing the water activities. In 2005 the Utility benefited from both the dry weather and about 1,700 new customers from the east side of Franklin that had been previously served by the Oak Creek Water Utility. The approving body for the Water Utility is the Franklin Board of Water Commissioners.

Capital Outlay Fund

Departmental requests for capital outlays in 2006 totaled \$894,912 compared to \$727,192 in 2005. The Mayor reduced the departmental requests by \$463,312 to \$431,600 that compares to the \$431,192 in the 2005 adopted budget. The related tax levy was raised for 2006 by \$53,000 above the 2005 tax levy to bring the tax levy in this fund closer to the annual tax levy needed to make annual capital outlay purchases.

Equipment Revolving Fund

The Equipment Revolving Fund provides for the replacement of various types of motorized equipment. New equipment purchased by other funds and replacement equipment purchased is placed on a depreciation schedule in the year acquired. Replacement is made based upon the estimated useful life of the equipment. Funding from the tax levy should approximate the annual depreciation of the replacement value attributed to the city's total fleet based on estimated useful life. The tax levy budgeted (\$255,000) represents only 49% of the tax levy indicated by the fund policy as compared to 58% the prior year. Replacement expenditures totaling \$401,500 have been requested for 2006.

Street Improvement Fund

The Street Improvement Program is a separate capital projects fund to give visibility to road improvement activities. Many of the City of Franklin streets were reconstructed at the time sewer was installed in various parts of the City 25 to 30 years ago. Many of those streets will need to be reconstructed in the next few years. Funding is being increased in this fund to be able to handle those additional road reconstruction projects. Tax Levy support is increased to \$762,000 in 2006 from \$730,000 in 2005. A proposed five year road improvement program is included in the materials. It needs to be highlighted that the revenues available are insufficient to allow all of these projects to be implemented in the time projected.

Capital Improvement Fund

The Capital Improvement Plan is used to project public improvement needs for the coming years. The Capital Improvement Fund uses this five year forecast for planning purposes. Items contained in the Capital Improvement fund are financed with existing resources, resources from other funds and from the issuance of debt. Major items in the 2006 budget are the last year of funding for Industrial Park Road Improvements a five year project, City share of the Ryan Road reconstruction and Park development projects. Borrowing for the 2005 -2007 projects was completed in 2005.

A 2006 budget for the Capital Improvement Fund is prepared each year as the first year of a five year forecast. The budget will be the amount presented for Common Council approval. Projects that have Common Council approval will receive a specific budget request. For those projects that have not yet had Common Council review and approval an unallocated total appropriation is requested.

Debt Service Fund

The City's plan is to issue Debt every other year in support of its capital activities. The last Debt issuance had been in 2001. In 2005, it was determined that the timing was right to issue additional debt. Debt in the amount of \$3 million was issued for the benefit of the Capital Improvement Fund. In addition, debt of \$7 million was issued for the benefit of tax incremental districts #3 & #4. Also in 2006 a \$10 million dollar borrowing will be completed for tax incremental district #2 that will allow the Community Development Authority to reduce the amount of Lease Revenue Bonds outstanding, with a result of no cost to the City of Franklin.

In 2006, the City of Franklin is continuing the transfer of landfill siting fees to be recorded as debt service revenue. In 2006, 80% of the siting fees will be recorded in the Debt Service Fund. By continuing this transfer, the debt service portion of the City tax levy has been able to be reduced by \$100,000 each year since 2003. If this process is continued for another year three million dollars of indebtedness will be able to be retired earlier than currently scheduled over the following five years. A review of this process

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determined that the tipping revenue had been combined with the siting revenue being transferred to the Debt Service Fund. This revenue source does not end in mid 2007 as the siting revenue does and will in 2006 be redirected 100% to the City's General Fund. This redirection in funding will not affect the payoff goal for the Debt Service Fund.

Community Development Authority

The Community Development Authority (CDA) monitors the City of Franklin tax incremental financing (TIF) districts for the City of Franklin. TIF District #2 started in 1993 has been determined to be one of the most successful TIF Districts in the State. It is scheduled to be completed by the year 2011. TIF Districts #3 & #4 were authorized in 2005 for areas along 27th Street. The general purpose of TIF Districts is to provide for infrastructure costs in areas where the natural development would be inhibited if this assistance was not available.

Conclusion

The year 2006 benefited from a higher level of growth than achieved in recent years. Shared revenues and transportation aids will be about the same as in 2005. Were it not for the redirection of tipping revenue, staffing reductions would have been required. Some limited staffing changes have been made, many restrictions of spending were offered to the Mayor by departments including leaving two authorized Police Department positions one in the Police and one in Dispatch that have not been funded in the 2005 requested budget unfunded in the 2006 budget.

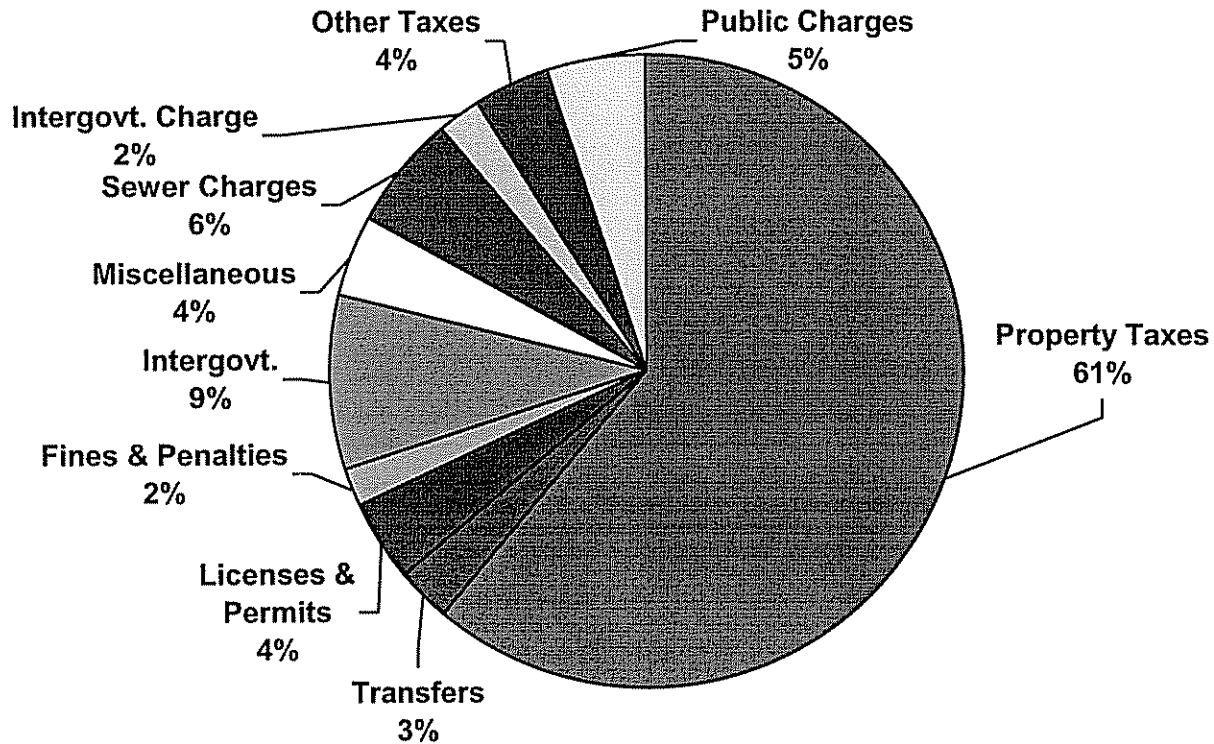
The Library received additional funding at this time of budgetary constriction due to continuing increase in Library use by the community, although the funding increase was less than requested by the Library Board. Combined capital spending is approximately the same level as the prior year although the mix of spending changes. The Capital Improvement budget is funded at a minimum level. Debt service tax levy costs continue to be reduced by transferring some revenue from the General Fund, resulting in less debt service tax levy being requested.

In spite of many challenges, an Adopted budget with tax levy increase of 3.9%, a tax rate decrease of 1.63% and an expenditure increase of 5.0% is in place for 2006. Franklin continues to be a growing community and its service needs will continue to grow.

Respectfully submitted,

Calvin A. Patterson, CPA
Director of Finance & Treasurer

2006 Budgeted Revenue



2006 Budgeted Expenditures

